

Islamic Banking & Finance Issues & Solutions

Edited by
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ISLAMIC BANKING & FINANCE
Issues & Solutions

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Chapter Seven

Better Corporate Governance and Risk in Dual Banking Environment: Evidence from Malaysia

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Muhammad Akhyar Adnan

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Abstract: The objective of this paper is to examine the impact of corporate governance on the risk of banks. A sample of twelve listed bank holding companies is examined over a ten year period (1996-2005). All the sample banks are offering Islamic banking products, in addition to conventional products. Based on the panel data analysis, separate board leadership structure, higher proportion of independent directors, smaller board size, lower director ownership, higher institutional ownership and higher block ownership seem to have lower risk. The study applies the agency theory. All findings except director ownership are in line with theoretical expectation. It might be due to three main reasons as discussed in the paper.

Keywords: *corporate; governance; risk; bank; Malaysia.*

7.0 Introduction

Issues of corporate governance have emerged with the birth of the corporation and not new issues (Vinten, 1998). However, it becomes an attractive issue in Asian countries, including Malaysia in late 1990s following the 1997-1998 crises (Cheung & Chan, 2004; Tze, 2003). Agency theory and many corporate guidelines suggest having a good corporate governance system for the betterment of the corporation. Corporate governance of banks seems to be more important than other industries because the banking sector plays a